Policy Forum: The Financial Activities Tax

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PRÉCIS
Cet article traite des principaux aspects entrant dans l’élaboration d’une taxe sur les activités financières, laquelle est une taxe à la valeur ajoutée (TVA) appliquée aux activités financières. La forme de TVA abordée dans l'article ne résout aucunement les difficultés associées à l’exemption lorsque la TVA figure sur une note de crédit tenant lieu de facture. Toutefois, le principe et l’expérience limitée existante laissent penser qu’elle pourrait constituer un moyen utile dans l’avenir en l’absence de meilleures solutions.

ABSTRACT
This article considers key issues in the design of a financial activities tax, which is an addition-based value-added tax (VAT) applied to financial activities. The form of FAT discussed in the article by no means resolves all the difficulties associated with exemption within an invoice-credit form of VAT, but principle and such limited experience as exists suggest that it may offer a useful way ahead when more perfect solutions are not available.

KEYWORDS: value-added tax ■ goods and services tax ■ financial services ■ financial institutions ■ tax neutrality ■ windfall profits

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INTRODUCTION

A “financial activities tax” (FAT)—a term coined in 2010 by the International Monetary Fund (IMF)1—is a tax on the sum of profits of and remuneration paid by financial institutions. That simple description leaves great flexibility as to how all these terms are defined, how the rate structure is applied, and much else, so that the FAT is in reality a family of possible taxes. Here we focus on one of three considered by the IMF, labelled “FAT1,” which in essence is an addition-based value-added tax (VAT) applied to finance alone.2

The purpose of this short article is not to promote FAT1—which from this point we will refer to as simply “the FAT”—as in any sense a way to solve all the problems associated with the common practice of exempting financial services (at least those that are paid for in the form of a margin) within an invoice-credit VAT.3 These problems are well known. Prominent among them are the “undertaxation” of final consumption (because of the exclusion of value added at the final stage) and the “over-taxation”4 of financial services used by registered businesses (because of the cascading from unrecovered input tax on purchases by financial institutions)—or, more precisely, the potential violation of production efficiency implied by unrecovered tax on inputs. Administrative complexity (in apportioning input credits between exempt and taxed products) is also a concern. It is known too that these difficulties are in principle soluble, notably along the lines of the cash flow approach set out by Poddar

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2 Ibid., at appendix 6, 66-67. The two others are more in the nature of an income tax, focusing on taxing all rents in the financial sector (by excluding remuneration below some level—FAT2) or on discouraging risk taking (by taxing the profit component at an increasing marginal rate—FAT3). See ibid., at 67-68.

3 The central difficulty in bringing margin-based services into the VAT is the allocation of the margin between the two sides of the transaction. (For multiple references on this, see footnote 1 in the third article in this policy forum by Pierre-Pascal Gendron, discussing Canada’s goods and services tax [GST].) While exemptions of financial services are widespread in the European Union, more recently introduced VATs have brought more financial services, especially fee-based services and insurance, into the VAT; see, for example, Satya Poddar, “VAT on Financial Services—Searching for a Workable Compromise,” in Richard Krever and David White, eds., GST in Retrospect and Prospect (Wellington, NZ: Thomson Brookers, 2007), 179-204. Even in many advanced countries, however, margin-based services—which the European Commission estimates are around two-thirds of all financial services—remain effectively exempt.

4 We have used quotation marks here to caution against the fallacy that final incidence of an input tax somehow matters for the existence of a distortion. It does not. The distortion derives from—indeed is—the wedge that it creates between the tax-exclusive price received by the seller and the tax-inclusive price paid by the buyer. A firm may be able to pass on a tax-induced increase in its input costs to its own customers, for instance, but there is still a distortion because that firm is at the margin willing to pay more for the input than the seller requires to be paid for it but the tax wedge prevents that mutually beneficial transaction from occurring. And the same is true if the tax is passed back to the supplier of the input.
and English\textsuperscript{5} and Poddar,\textsuperscript{6} and can be mitigated by less perfect methods.\textsuperscript{7} But progress along such lines has been slow and limited to relatively few countries—with almost none in the European Union.\textsuperscript{8}

The spirit in which the FAT was proposed by the IMF was mainly to draw attention to the need to address these festering problems in the VAT treatment of financial services—and to suggest that progress could be made in relatively straightforward ways.\textsuperscript{9} The proposal was made as part of a response to a request to review the tax treatment of the financial sector in the aftermath of the financial crisis, with the thought that before looking to adopt fancy new taxes—though one was proposed—or a generalized financial transaction tax (FTT), it was important to address problems in the existing tax system. Prominent among these were not only the corporate tax incentive to use debt rather than equity finance but also the distortions associated with the VAT (or, in the case of the United States, similar problems associated with sales taxes). As it turned out, the fancy new tax—a charge on, in effect, banks’ wholesale liabilities—gained far more practical attraction than did the FAT (with some variant adopted in over a dozen EU member states). The FAT did win support from the European Commission\textsuperscript{10} and others, though it lacked (and still lacks) the popular appeal of the FTT. But nothing has happened since 2010 to weaken these reasons to think carefully about the FAT.

In doing so, we do not delve into the question whether or not it is optimal to tax financial services, but simply presume that it is, nor do we consider the likely wider economic impact of a FAT.\textsuperscript{11} And we consider only design issues, touching on revenue implications, for instance, only briefly.

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\textsuperscript{6} Poddar, supra note 3.

\textsuperscript{7} For example, by providing some credit in relation to margin-based services for some portion of the input VAT paid. Australia allows a 75 percent credit for VAT payable on listed services used for financial supplies. Singapore also allows financial institutions to claim a credit for a fixed percentage of total input taxes, varying across types of financial institutions.

\textsuperscript{8} Variants of the cash flow method were piloted in Europe during 1994-1997 but have not been adopted—perhaps, as Kerrigan argues, because the benefits of reform have not been made as clear to policy makers as the perception that compliance costs would be high: Arthur Kerrigan, “The Elusiveness of Neutrality—Why Is It So Difficult To Apply VAT to Financial Services?” (2010) 21:2 International VAT Monitor 103-12.

\textsuperscript{9} See IMF, supra note 1.


INTERACTION WITH AN INVOICE-CREDIT VAT

The idea of an addition-based VAT comes from the observation that, for a closed economy (border issues are taken up later), value added can be expressed as either revenue minus purchases (the normal base for the VAT) or, equivalently, as wages plus a cash flow notion of profit. A VAT can in principle be implemented straightforwardly by the application to all firms and sectors of either the invoice-credit or the addition method.\textsuperscript{12} The essence of the FAT, however, is that it would combine an addition-based VAT on one set of firms or activities with an invoice-credit VAT applying to the generality of other firms or activities. Several jurisdictions, it is important to note, already do something of this sort, whether only in the financial sector or in relation to VAT exemptions more generally; some examples are provided in the accompanying box. We do not here evaluate these experiences—beyond noting that they show a FAT-type approach to be practicable—but focus on the design problems associated with the FAT, beginning with those arising from its interaction with an invoice-credit VAT.

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
Examples of Addition-Type VATs in the Financial Sector  \\
\hline
Israel applies an addition-basis tax to financial institutions, the base being taxable income for company income tax purposes plus wages paid, and the rate being the same as the standard VAT rate (currently 17 percent). Relevant to issues addressed in the text, there are no border adjustments, financial institutions are unable to credit “normal” input VAT against the tax, and the customers of the institutions do not receive any credit for tax paid on their purchases. The tax is administered by the income tax department rather than the VAT department. \\
\hline
Iceland introduced a FAT in early 2012. All financial institutions, including insurance companies, security brokers, management companies of collective investments in transferable securities, and the Housing Financing Fund are liable for the tax. The base is the gross wage bill (taxed at 5.5 percent) plus profit (taxed at 6 percent). \\
\hline
\end{tabular}
\end{table}

\textsuperscript{12} Or the subtraction method. On these alternatives, see Liam Ebrill, Michael Keen, Jean-Paul Bodin, and Victoria Summers, \textit{The Modern VAT} (Washington, DC: International Monetary Fund, 2001), chapter 2, and the references therein.

Quebec taxes financial institutions in the province on an addition basis. These institutions pay a tax (la taxe compensatoire des institutions financiers) on local wages and paid-up capital (for banks, loan and trust companies, and companies trading in securities), or on local wages (for savings and credit unions) and on premiums (for insurance). In all cases, the rate of tax is below the standard provincial VAT rate. For example, for banks, the tax rate on wages is 4.48 percent; for savings and credit unions, it is 3.52 percent (up to March 31, 2017, at which time, it has been announced, the rates will be reduced).

France and Denmark both levy a compensatory tax on the financial sector to broadly offset the undertaxation implied by exemption. In France, la taxe sur les salaires applies to all firms whose turnover exceeds the VAT threshold but are subject to VAT on less than 90 percent of that turnover. The base is total remuneration, regardless of the residence of the employee, adjusted for the proportion of turnover subject to VAT. The rates are progressive on individual salaries, ranging from 4.25 percent to 13.6 percent. This payroll tax has raised significant revenue, the vast bulk of which is believed to come from financial institutions. In Denmark, as in France, the payroll tax applies to various sectors that are largely exempt from VAT. For companies in the financial sector, the tax is currently levied at 13.6 percent of payroll; the rate has been rising in recent years and is planned to increase further.

For business-to-consumer (B2C) transactions, the FAT fits neatly with the exemption of financial services under an invoice-credit VAT: the combination of unrecovered VAT on the financial institution’s inputs and a FAT (with profit evaluated at tax-inclusive prices that reflect this unrecovered input VAT) replicates the outcome under a perfectly functioning VAT, with tax collected on the full value of final consumption. The invoice-credit VAT captures value added at stages prior to financial intermediation, and the FAT then captures the value added at that stage.

Business-to-business (B2B) transactions, however, are problematic. There would, of course, be no difficulty if non-financial VAT-registered businesses were also subject to an addition-based form of VAT, since they would then in effect receive full credit for FAT passed through to their purchases of financial services. This is not the case, however, when—the relevant case in practice—non-financial firms are subject to a standard invoice-credit VAT: then they could take credit only on the basis of invoices reporting FAT that they had been charged. And that does not come naturally to the FAT, since levying of the tax does not require that payment be allocated to particular transactions. In this case, the FAT risks intensifying the production inefficiencies that arise from exemption under the current VAT. This would be a significant drawback, at least if the FAT were levied at a level comparable with current standard VAT rates.¹³

¹³ There may in any case be conceptual merit in taxing financial services at a reduced rate: see, for example, Boadway and Keen, supra note 11.
One way to deal with this problem is by apportioning wages and profits between B2B and B2C transactions and applying the FAT only to the latter component (which would be easier, of course, if financial institutions were able to distinguish between their transactions with registered businesses and their transactions with others), while also apportioning input VAT so as to effectively zero-rate B2B transactions.\textsuperscript{14} Issues would arise, of course, as to how to do the apportioning. But those issues already arise for allocating input VAT between taxable and non-taxable outputs.\textsuperscript{15} In practice, it seems that pressure to make any such adjustments has not been great: no jurisdiction that has an addition-method VAT for financial services makes any.

**OTHER (BIG) DESIGN ISSUES**

Many other detailed design issues arise in considering a FAT. This section considers some of the most important.

**Defining Profits**

The notion of “profit” implicit in the standard form of VAT is not that used in most countries’ corporate income taxes. Instead, it is a cash flow concept, with full expensing of investment (and no subsequent allowances for depreciation)—this is the essence of a consumption-type VAT—and no deductions for the cost of finance. Such a tax bears only on rents, in the (somewhat loose) sense that the present value of tax paid is positive if and only if the return on investment exceeds the firm’s cost of capital. The tax is therefore, in principle, neutral in the sense of having no impact on marginal financing or investment decisions. While one could simply apply a FAT to profit defined in much the same way as for the corporate income tax, it is natural to use some definition of “profit” that mimics this neutrality feature. There are a number of ways in which this can be done.

The Meade committee,\textsuperscript{16} for example, identified three forms of cash flow tax with this neutrality property. These differ in their suitability for the financial sector, as described below:

\textsuperscript{14} Kerrigan, supra note 8, suggests that it is possible to calculate the total taxable base for VAT purposes from statutory income statements, and then allocate the margin on financial services provided in supplies to taxable businesses for VAT purposes. See also Peter R. Merrill and Chris R. Edwards, “Cash-Flow Taxation of Financial Services” (1996) 49:3 National Tax Journal 487-500.

\textsuperscript{15} An alternative would be to allow business users some deemed credit for FAT payments while providing credit for associated input VAT. There are precedents for such arrangements—for example, in the usual treatment of purchases of second-hand goods. Indeed the basic cash flow form of VAT also has a feature of this sort, since financial institutions would receive a credit for outflows (such as withdrawal of deposits) even to unregistered traders that cannot issue invoices.

1. The $R$ base includes only non-financial transactions in the base and so is closely analogous to the definition implicit in the standard VAT for non-financial companies. This form of tax is clearly inappropriate for businesses engaged in providing margin-based services, because in ignoring financial transactions it would effectively leave the associated profits untaxed.

2. The $R + F$ base is arrived at by adding to net real flows the total of net financial inflows, including principal amounts. These flows correspond to those taxed in the cash flow VAT mentioned above, the difference being that for such a VAT flows need to be recorded transaction by transaction, whereas under the $R + F$ base only aggregate flows need be recorded.

3. The $S$ base is simply net distributions to shareholders: the sum of dividends paid plus repurchases of shares minus new shares issued plus dividends received. From the balance sheet identity, the $S$ base is exactly equivalent to the $R + F$ base.

There are many other forms of rent tax. One that has attracted particular interest is the allowance for corporate equity (ACE), which subtracts from profits as usually calculated for business taxation a further deduction for a notional return on equity. There is now quite extensive experience with such schemes: Belgium, Italy, Latvia, and Turkey, for example, have all adopted ACEs, and Brazil has had a corporate income tax with ACE-like features for many years.\(^\text{17}\)

It is well known that the $R + F$ base, the $S$ base, the ACE, and many others are equivalent in principle—not in the sense that they would yield the same tax revenue in each period (in this the ACE will differ from the others) but in that all would leave investment and financing decisions undistorted. They also imply the same tax revenue in present-value terms, up to some constant that is irrelevant in the sense of being fixed by past behaviour.\(^\text{18}\)

A coherent base for a FAT, intended to address the undertaxation of financial services in many current sales tax systems, might thus comprise a uniform tax on profits defined by one of the methods above (other than the $R$ base) plus payments to workers measured, for example, by using the definitions and rules currently provided for the income taxation of businesses and individuals.

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\(^{18}\) An ACE, for example, is equivalent to an $S$-base cash flow tax plus an allowance for initial capital (the intuition being that an ACE, but not an $S$-base cash flow tax, gives a deduction in respect of investments made prior to the adoption of the tax).
Among the possible profit concepts, the ACE is perhaps closest to the treatment under current business taxation; the only adjustments to the business tax base needed to implement a FAT of this type would be to add labour costs back in and deduct an allowance for equity. Familiarity with most of the concepts involved, to both taxpayers and tax officers, is an advantage; it could pave the way, not least, for speedy implementation.\(^{19}\) The cash flow \(R + F\) approach, on the other hand, is closest to treatment under the standard invoice-credit VAT or, even more so, to that under a cash flow VAT for financial services. But it involves an unfamiliar and more complicated set of adjustments, particularly the need to make adjustments for financial flows of principal amounts of new deposits and lending.

When profits defined in any of these ways are negative in any period, the base would be less than total wages; this causes no particular problem. It is unlikely that loss on capital account would exceed the wage bill, but it is possible. In principle, the excess should (again in order to mimic the standard VAT) be refunded or carried forward with interest.

**Border Adjustment\(^{20}\)**

Consistent with the destination principle that is the international norm in indirect taxation—taxing consumption where it occurs, rather than production—most countries that exempt financial services under their VAT allow direct exports of exempt services to be zero-rated. (In the European Union, only exports outside the common zone are zero-rated in this way.) The question arises whether, and if so how, to take exported financial services out of (and bring imported services into) a FAT.\(^{21}\)

To match the destination basis of the standard VAT, “zero-rating” might seem appropriate under a FAT (along with zero-rating under the VAT itself). Under the \(R + F\) approach, for instance, this would mean including only inflows from domestic transactions in taxable receipts and not allowing deductions for other than domestic outflows; for example, deposits or borrowing from a non-resident would not generate taxable income and neither would their repayment be relieved from tax. Conversely, lending to non-residents would not generate tax relief, and repayments of such

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\(^{19}\) Of course, an ACE basis for the profit component of a FAT would be less burdensome to administer and comply with were the corporate income tax also to be converted to an ACE—for which many believe there is a strong case.


\(^{21}\) Michael Keen and Walter Hellerstein, “Interjurisdictional Issues in the Design of a VAT” (2010) 63:2 Tax Law Review 359-408, present the case for preferring the destination principle on grounds of economic principle, while stressing that zero-rating of exports is not the only way in which it can be implemented.
loans would not be taxable. This treatment is analogous to the treatment of exports under the VAT, in that sales to non-residents do not bear tax. It requires that transactions with non-residents be identified and aggregated. Under alternative definitions of the profit component of the FAT, such as an ACE, destination treatment could be approximated in the same way or by another element of apportionment intended to exclude from the base of the FAT profits attributed to services supplied to non-residents.

With regard to the wage component of the FAT, placing this on a destination basis requires the exclusion of wages associated with export supplies and the inclusion of any wage costs incurred abroad in relation to domestic supplies. In practice, this would likely mean adopting some relatively simple method of allocation, such as including in the base of the FAT only the share of wages corresponding to the share of domestic receipts in total receipts.

There are, though, two difficulties with putting the FAT on a destination basis. The first is an erosion of revenue: countries with a large financial sector may forgo significant revenue by applying a FAT on a destination basis to the extent that the sector’s output is exported. The second is that there will be an incentive—for both financial and non-financial companies—to acquire (or provide) financial services from abroad, rather than domestically. While a similar pro-import bias is commonplace under existing VATs—because exemption means that financial services purchased domestically will likely reflect unrecovered input VAT, whereas imports will be zero-rated in the country of export—the effect would be amplified under a FAT of this form.

These concerns suggest that there is merit in instead levying the FAT on the origin basis—that is, without excluding exports from or including imports in the base—to which the addition method is inherently better suited. But this approach raises some quite deep structural concerns.

Perhaps the most troubling relate to the scope that this would create for tax avoidance and intense international tax competition. Any mechanical rule for apportioning profits and/or wages across jurisdictions invites tax planning and the creation of real distortions to firms’ behaviour. The precise form will, of course, depend on the rule(s) adopted, but the general point has been made clear in the literature on formula apportionment. Related to this, an origin-basis FAT would be more vulnerable than a destination-based one to erosion through international tax competition, since countries would seek to protect their own tax bases and favour

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23 See, for example, International Monetary Fund, Spillovers in International Corporate Taxation, IMF Policy Paper (Washington, DC: IMF, May 9, 2014).
their own financial institutions in international markets (and gain revenue) by charging the tax at a lower rate than their competitors. To guard against this, collective agreement on a minimum FAT rate would be useful—and analogous to agreements within the European Union on minimum rates of VAT and excises. For the European Union, indeed, one could envisage operation of the FAT on a restricted origin basis: origin within the union, destination-based for transactions with the rest of the world, with profits and remuneration allocated between the two.24

Fee-Based Services
A number of countries bring these charges fully into the invoice-credit VAT, albeit with a degree of arbitrariness in the allocation on input tax credits to their provision. There are several options for their treatment in the presence of a FAT. One is to instead exempt them under the VAT and incorporate them fully into the FAT, the difficulty being that this would introduce overtaxation of B2B transactions where previously (apart from the apportionment issue) there was none (though, as noted above, that might be addressed by allowing credit for tax implicitly paid). Another is to retain the invoice element of current VAT treatment but apportion wages (and perhaps profits too) to taxable and exempt activities, and apply the FAT only to the latter. This treatment of wages corresponds to that used in the French payroll tax; the tax base is calculated by adjusting the wage bill by the share of total output that is represented by exempt supplies.

Insurance Premium Taxes
A number of countries, such as the United Kingdom, exempt general insurance from VAT (most exempt life insurance) but levy a special compensatory tax, often in the form of a tax on the premium. In some cases, the revenue raised by premium taxes is significant. Here the most natural approach would be to maintain the premium taxes and in addition bring the supplies under the FAT, either maintaining the current premium rate, so that the tax burden and revenue would increase, or accompanying inclusion in the FAT with a compensating reduction in premium tax rates.

Perimeter
Applying the general principle of the VAT that all firms above some threshold size are liable to the tax, the implication is that all those above some threshold level of financial activity would be required to register for the FAT. In practice, this threshold would likely, and appropriately, be such that any entity with substantial financial

24 The question also arises whether multinational financial institutions operating from countries applying some form of worldwide taxation (which, these days, means primarily the United States) would seek and be able to claim at least part of the FAT paid by their related entities abroad as a credit against corporate tax due in the country of their residence. In some cases, similar issues might arise in relation to the wage component of the FAT. But these are questions for specialist lawyers.
activities would be subject to the tax, even if that entity was part of a wider group with primarily non-financial activities. If necessary, firms might be required to segregate accounts between financial and non-financial activities, similar to the separation between foreign and domestic transactions discussed above in respect of border adjustments. Shackelford et al. argue that the need to bring into the FAT financial entities within primarily non-financial groups poses significant difficulties; it is hard to see why this should be so, however, since all that is needed is a definition of financial services and some form of threshold below which registration for the tax is not required—both of which are already in place under existing VATs.

CONCLUSION

The FAT is not intended as an elegant solution to the evident difficulty of incorporating financial services within an invoice-credit VAT. Its appeal is largely pragmatic, given the equally evident difficulty that many countries have experienced in moving in these more satisfying directions, and not least in lower-income countries that lack the administrative capacity to implement some of the more sophisticated approaches that can now be found in some advanced countries. There are, evidently, many awkward design issues to be faced, notably in the treatment of B2B transactions and in relation to cross-border trade in financial services. These are difficult technical issues, but they do not seem inherently less manageable than those that arise in many other areas of taxation. Administratively, the close relation between the FAT and routine taxes on profits and wages already levied would seem to ease the way to implementation, and there is already some practical experience with FAT-type taxes that merit far more attention than they have yet received.

Of major concern to policy makers, but not discussed here, are the likely revenue implications of adopting a FAT. Calculations by the IMF for a subset of OECD economies suggest that the base of an origin-basis FAT would be very sizable, averaging around 5 percent of gross domestic product (GDP). For a destination-basis FAT structured so as to replicate an idealized VAT, the revenue impact, relative to exemption, is in principle ambiguous, the question being whether the tax gained on B2C transactions outweighs that lost from B2B. Most of the empirical evidence, however, suggests a revenue gain.

26 IMF, supra note 1, at appendix 6, 70, table A6.1.
27 For example, Harry Huizinga, “A European VAT on Financial Services?” (2002) 17:35 Economic Policy 497-534, estimates a revenue increase in 1998 in the EU 15 of around 0.15 percent of their GDP, and the European Commission, Impact Assessment, supra note 20, vol. 1, at annex 11, table 12, estimates much the same for 2008. One cannot, of course, assume that the impact elsewhere would be of similar magnitude or even of the same sign. See also Bernd Genser and Peter Winker, “Measuring the Fiscal Revenue Loss of VAT Exemption in Commercial Banking” (1997) 54:4 Finanzarchiv 563-85; and Buettner and Erbe, supra note 11.
Closely related to this is the question of how a FAT would affect the size of the financial sector. This is of concern not only in much popular discussion; Sahay et al. also suggest that the financial sector may in some cases have become excessive. The differing impacts on business and final users make the impact of the current exemption of financial services on the size of the sector theoretically ambiguous, depending on relative price sensitivities of business and final use: for example, if the elasticity of demand for margin-based services of business users is high and that of final consumer demand is low, the exemption could in principle cause the financial sector to contract. However, the evidence just cited creates some presumption that the exemption of many financial services under the current VATs results in the financial sector being larger than it would be under a perfectly functioning, single-rate VAT levied at a reasonable level. While this does not mean that any tax measure that reduces the size of the sector is efficiency-improving—such a reduction could result, for example, from a costly worsening of the distortion to business use—it does suggest that a well-designed FAT might lead to a somewhat smaller financial sector. That, however, would be a consequence of, and not an objective in, its adoption. The purpose of the FAT is not to promote the stability of the financial sector or to address externalities that may arise from its operation; the tax issues that those concerns raise are rather in terms of eliminating debt bias and, if need be, going further to use tax instruments to discourage borrowing.

Over the last few years, the FAT idea has generated significant interest and some further analysis—much of which has broadly agreed with the assessment here. Most notably, the European Commission quickly endorsed the FAT as meritng serious attention by EU members, and provided extensive further analysis. Too much of the recent discussion, however, has been cast in terms of a horse race between the FAT and an FTT. While this is a race that, among tax specialists at least, the FAT has generally won—it has been noted, for instance, that while the European Commission ultimately recommends an FTT, much of its analysis actually tends to favour the FAT—this has distracted from the key issue of whether a FAT is worth adoption in its own right. The case for closer consideration of this issue, taking account of countries’ differing initial positions and priorities, seems to us quite compelling.

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29 Michael Keen, “Rethinking the Taxation of the Financial Sector” (2011) 57:1 CESifo Economic Studies 1-24, places the FAT in the wider context of the taxation of the financial sector.

30 European Commission, supra note 10.

31 Ibid. Daniel N. Shaviro, “The Financial Transactions Tax vs. the Financial Activities Tax” (2012) 135:4 Tax Notes 453-74, for example, concludes that a FAT (possibly both FAT1 and FAT3) is generally preferable to an FTT, while Thorsten Beck and Harry Huizinga, “Taxing Banks—Here We Go Again!” Vox, October 25, 2011 (www.voxeu.org/index.php?q=node/7129), remark that “the Commission makes the wrong choice in favoring an FTT over a FAT.”